Testimony of
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On Behalf Of The
South Dakota Bankers Association

At a Public Meeting of the
Farm Credit Administration

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INTRODUCTION:

Chairman Reyna, Ms. Pellet, and Mr. Flory, my name is Dwight Hossle. I am the Regional President of Dacotah Bank in Faulkton, South Dakota. Dacotah Bank has total assets of approximately $693 million and total loan commitments in excess of $500 million spread across our 18 South Dakota branches. In addition to our South Dakota operations, our Aberdeen-based holding company has 9 branch banks in North Dakota. The Faulkton branch I manage has assets totaling $41 million. I also farm and raise cattle in my “spare” time.

I come before you today on behalf of the South Dakota Bankers Association. The association represents 92 of the 94 commercial bank and savings institution charters in the state. Given South Dakota’s rural demographics, nearly all of banks are involved in ag lending activities.

We in the banking community are truly grateful for the opportunity to provide our views relating to the scope of the Farm Credit System’s lending activities. My perspectives are those of a banker actively engaged in serving the financial needs of the same clientele as is served by the Farm Credit System. At times my remarks will be somewhat critical, but they are offered in the belief that a constructive dialogue will result. While competition between lenders is good for the consumer, in this case farmers and ranchers, I don’t believe that the United States Congress ever intended for the Farm Credit System to expand its business charter into some of the areas being discussed today, particularly while the system is not meeting its charge of lending to young, beginning and small farmers.

You first ask whether you should retain or change the current definition of a bona fide farmer. Your current definitions contain the word “primary” as a yardstick for measuring whether or not someone is a bona fide farmer. Primary implies a level of subjectivity that is open to interpretation. What constitutes a “primary” part of the business to one farmer, or one Farm Credit System loan officer, or a regional director, may not be “primary” to another.

While several federal agencies have defined “farmer” or “farming”, I don’t believe that adding more subjective terminology is the answer. Perhaps the best way to limit subjective interpretation would be to simply require that all FCS borrowers file an IRS form 1040, Schedule F within 24 months of completion of financing through FCS. Since the Schedule F is the universal means by which farmers declare farm income and expense, it could provide an objective means of judging whether or not loans made by FCS are for bona fide farming purposes.

Of more concern to bankers than defining “bona fide farmer”, is the System’s desire to eliminate current regulatory language directing FCS institutions to provide “conservative credit to less than full time farmers” and to issue credit on an “increasingly conservative basis” as potential borrowers needs move further away from full-time farming.

It is difficult to ignore the fact that FCS lenders have become increasingly interested in making “country living” and “country lifestyle” loans to non-farmers. I will give you three specific illustrations of why bankers in South Dakota have reason to be concerned:

- In eastern Pennington County, FCS financed the acquisition and development of a hunting resort, not by loaning money to the existing or neighboring ranchers, but instead by making a loan to a group of urban professionals with a desire to have their own private hunting preserve.

- A retired corporate executive purchased 160 acres of prime forestland in South Dakota's Black Hills as a building site for a $3 million dollar home. Farm Credit financed the entire package.

- A group of attorneys who own farm land in northeast South Dakota used Farm Credit System loan proceeds to renovate and refinance a chain of their Taco Johns restaurants

Is it reasonable for the Farm Credit Administration to demand that Farm Credit System loans made to less than bona fide farmers be made on an "increasingly conservative" basis? Absolutely. You have a fiduciary responsibility to Congress and to the taxpaying public to ensure that the loans made by the System are safe, sound, and fall within the mission of the Farm Credit System, as directed by Congress.

Your next two questions relate to the basic issue of how much non-farm lending the Farm Credit System should conduct. I contend the answer is little or none.

Congress created the Farm Credit System at a time when farmers and ranchers found themselves unable to borrow money from traditional lenders, either due to regulatory restrictions or to the economic upheaval of the Great Depression. The System was charged with a special, limited mission to deliver specific services to a particular segment of the economy. In exchange, the System enjoys significant freedom from taxation and the implied full faith and credit of the United States government in borrowing lendable funds. Congress never intended, never envisioned, and does not today want FCS institutions to be into credit cards, home equity lending, or other types of consumer/non farm lending. If it is the goal of the Farm Credit System to eventually become the one-stop financial shop for anyone living on what once was farmland in suburban America, then there can be little question that such activity would far exceed the authority granted by the Congress.

Asking the question how much non-farm lending is ok for FCS is a little like asking how much profit a <u>non-profit</u> organization should be allowed to make. Each has its own tax – favored status for a limited purpose. It is my opinion that the Farm Credit Administration has a responsibility to hold it's regulated entity to that purpose.

It is particularly appropriate that FCA limit the Farm Credit System's desire to branch into non-traditional, non-ag lending when at the present time, in many areas of the country including South Dakota, the Farm Credit System is not doing enough to meet the credit needs of certain bona fide farmers and ranchers, specifically young, beginning and small farmers. My experience, and that of many other ag lenders across South Dakota, is that Farm Credit lenders are often not interested in doing the hard work that is involved in getting a young farmer started. The Farm Credit System appears to have no interest in participating in Farm Service Agency (FSA) guaranteed loans for those young borrowers with limited collateral. Instead, they often wait a few years while those beginning farmers get on their feet and only then do they make a concerted effort to recruit those borrowers into the Farm Credit family.

You ask if there is a better approach for FCA to take. Perhaps the reason the Farm Credit System continues to focus on growing its non-agricultural lending business while ignoring its chartered calling to serve young, beginning and small farmers is that they need to be given concise, well-defined goals that must be met. Specifically, FCA could do the following things:

1. Assure that all FCS institutions fully disclose all lending activities to FCA as its governing board.
2. Develop a clearer, consistent approach that FCS institutions must follow when reporting young, beginning and small farmer borrowing activity
3. Develop an overall "scorecard" for the Farm Credit System so that the performance of individual FCS institutions can be evaluated and compared, both over time and with their peers. Individual institutions that don't meet performance benchmarks could then be better supervised and deficiencies can be corrected.
4. Create an Affordable Farming Program modeled after the Affordable Housing Program implemented by the Federal Home Loan Bank System.

Finally you ask if FCA should change the definition of "moderately priced" rural housing. My experience in rural areas of South Dakota indicates that the Farm Credit System is not actively engaged in home mortgage lending. However, using 75% of median housing value seems to be a reasonable means of defining "moderately priced" housing.

Conclusion

I very much appreciate this chance to share not only my opinions, but also the views shared by many of my fellow South Dakota bankers. The Farm Credit Administration has a serious responsibility to assure that the Farm Credit System adheres to and does not exceed its Congressional charter. We believe that the System needs to refocus it efforts to assure that it meets its lending responsibilities to young, beginning and small farmers and that it doesn't get caught up in the pursuit of more glamorous lending activities that fall outside its limited charter. The Farm Credit Administration needs to lead that effort, even if that means giving directions which Farm Credit System institutions may not like.